



THE SECRETARY OF HEALTH AND HUMAN SERVICES  
WASHINGTON, D.C. 20201

MAR 25 1993

The Honorable Albert Gore, Jr.  
President of the Senate  
Washington, D.C. 20510

Dear Mr. President:

Section 1886(e)(3)(B) of the Social Security Act requires that the Secretary of Health and Human Services report to the Congress the initial estimate of the applicable percentage increase for FY 1994 that she will recommend for hospitals subject to the Medicare prospective payment system (PPS) and for hospitals and units excluded from PPS. This submission constitutes the required report.

We recommend an overall average update for all hospitals of market basket minus 1.0 percentage point beginning January 1, 1994, rather than October 1, 1993. The Office of Management and Budget currently estimates the market basket rate of increase for all hospitals for FY 1994 to be 4.5 percent.

Urban PPS hospitals would receive the market basket rate of increase minus 1.17 percentage points, or a 3.33 percent rate of increase. Coupled with the delay in the update until January, the resulting effective annual update for PPS hospitals in urban areas would be the market basket rate of increase minus 2.0 percentage points, or a 2.5 percent rate of increase.

In order to eliminate the difference between the payment rates paid to other urban and rural PPS hospitals by FY 1995, current law provides for an additional 1.5 percentage point increase in the update for rural hospitals above urban hospitals. We also recommend the additional 1.5 percentage point increase for rural hospitals beginning January 1, 1994.

For hospitals excluded from PPS, we recommend an average increase in the Tax Equity and Fiscal Responsibility Act limit equal to the rate of increase in the excluded hospital market basket minus 1.0 percentage point, beginning January 1, 1994. However, excluded hospitals and units are paid on the basis of their costs, and the update is applied at the beginning of each hospital's cost reporting period, not at the beginning of the Federal fiscal year (cost reporting periods vary from hospital to hospital). In order to effect a 3-month delay in the update, the update for excluded hospitals and units would be reduced by one-fourth and applied to the entire cost reporting period.

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Therefore, under current estimates, excluded hospitals and units would receive an update of 3.5 percent less one-fourth, for a total effective update of 2.6 percent.

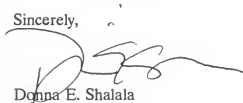
Our recommendation for the updates is based on current projections of relevant data. A final recommendation on the appropriate percentage increases for FY 1994 will be made nearer the beginning of the new Federal fiscal year based on the most current market basket projection available at that time. The final recommendation will incorporate our analysis of the latest estimates of all relevant factors, including recommendations by the Prospective Payment Assessment Commission (ProPAC).

We have not had the opportunity to evaluate fully the recommendations of ProPAC. We will comment on their recommendations in our proposed FY 1994 PPS rule that will be published in May.

Section 1886(d)(4)(C)(iv) of the Social Security Act, as enacted by section 6003(b)(2) of the Omnibus Budget Reconciliation Act of 1989, requires that the Secretary include in her report recommendations with respect to adjustments to the diagnosis-related group (DRG) weighting factors. At this time, we do not anticipate recommending any adjustment to the DRG weighting factors for FY 1994.

I would be pleased to discuss this recommendation with you.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Donna E. Shalala', with a long, sweeping horizontal line extending to the right.

Donna E. Shalala





THE SECRETARY OF HEALTH AND HUMAN SERVICES  
WASHINGTON, D.C. 20201

MAR 25 1993

The Honorable Thomas S. Foley  
Speaker of the House of Representatives  
Washington, D.C. 20515

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Page 2 - The Honorable Thomas S. Foley

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A handwritten signature in dark ink, appearing to read 'D. Shalala', with a long horizontal flourish extending to the right.

Donna E. Shalala

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